

Township of Denmark

Tuscola County, Michigan

Financial Statements

June 30, 2008



REHMANN ROBSON

Certified Public Accountants

TOWNSHIP OF DENMARK

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INDEPENDENT AUDITORS' REPORT

December 22, 2008

To the Township Board
Township of Denmark
Tuscola County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Township of Denmark***, as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Township of Denmark***, as of June 30, 2008, and the respective changes in financial position, thereof and the budgetary comparison of the general fund and the major special revenue funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 22, 2008, on our consideration of ***Township of Denmark's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing and not

to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Township of Denmark***'s basic financial statements. The individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Township of Denmark***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The ***Township of Denmark***, has not presented a Management's Discussion and Analysis ("MD&A") as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

FINANCIAL STATEMENTS

TOWNSHIP OF DENMARK

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 88,919	\$ 172,936	\$ 261,855
Investments	-	179,475	179,475
Receivables	42,593	549,744	592,337
Prepays and other assets	6,300	-	6,300
Capital assets, net			
Assets not being depreciated	-	137,000	137,000
Assets being depreciated, net	25,000	4,066,000	4,091,000
Total assets	162,812	5,105,155	5,267,967
Liabilities			
Accounts payable	18,704	18,851	37,555
Non-current liabilities:			
Due within one year	-	88,500	88,500
Due in more than one year	-	2,775,000	2,775,000
Total liabilities	18,704	2,882,351	2,901,055
Net Assets			
Invested in capital assets, net of related debt	25,000	1,339,500	1,364,500
Restricted for repairs and replacements	-	2,500	2,500
Unrestricted	119,108	880,804	999,912
Total net assets	\$ 144,108	\$ 2,222,804	\$ 2,366,912

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	174,085	450	-	-	\$ (173,635)
Public safety	97,254	229	1,452	-	(95,573)
Public works	154,810	87,145	-	-	(67,665)
Health and welfare	3,000	-	-	-	(3,000)
Culture and recreation	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Total governmental activities	439,149	87,824	1,452	-	(349,873)
Business-type activities:					
Water / Sewer	<u>143,201</u>	<u>244,921</u>	<u>-</u>	<u>1,059,500</u>	<u>1,161,220</u>
Total primary government	<u>\$ 582,350</u>	<u>\$ 332,745</u>	<u>\$ 1,452</u>	<u>\$ 1,059,500</u>	<u>\$ 811,347</u>

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TOWNSHIP OF DENMARK

STATEMENT OF ACTIVITIES (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Governmental Activities	Business-type Activities	Total
Change in net assets			
Net (expense) revenue	\$ (349,873)	\$ 1,161,220	\$ 811,347
General revenues:			
Property taxes	171,817	-	171,817
Grants and contributions not restricted to specific programs	130,205	-	130,205
Unrestricted investment earnings	1,089	54,972	56,061
Miscellaneous general revenues	3,836	-	3,836
Total general revenues	306,947	54,972	361,919
Change in net assets	(42,926)	1,216,192	1,173,266
Net assets, beginning of the year	187,034	1,006,612	1,193,646
Net assets, end of year	\$ 144,108	\$ 2,222,804	\$ 2,366,912

The accompanying notes are an integral part of these financial statements.

**INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

TOWNSHIP OF DENMARK

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

ASSETS	General	Garbage Collection	Fire Protection	Police	Total Governmental Funds
Cash and cash equivalents	\$ 63,236	\$ 9,793	\$ 15,890	\$ -	\$ 88,919
Investments	-	-	-	-	-
Due from other governmental units	42,593	-	-	-	42,593
Due from other funds	-	-	-	1,599	1,599
Prepaid expenditures	-	-	6,300	-	6,300
Total assets	<u><u>\$ 105,829</u></u>	<u><u>\$ 9,793</u></u>	<u><u>\$ 22,190</u></u>	<u><u>\$ 1,599</u></u>	<u><u>\$ 139,411</u></u>
 LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 4,999	\$ 8,411	\$ 3,550	\$ 689	\$ 17,649
Due to other governmental units	145	-	-	910	1,055
Due to other funds	1,599	-	-	-	1,599
Total liabilities	<u>6,743</u>	<u>8,411</u>	<u>3,550</u>	<u>1,599</u>	<u>20,303</u>
Fund balances					
Reserved for prepaid expenditures	-	-	6,300	-	6,300
Unreserved:					
Undesignated	99,086	1,382	12,340	-	112,808
Total fund balances	<u>99,086</u>	<u>1,382</u>	<u>18,640</u>	<u>-</u>	<u>119,108</u>
Total liabilities and fund balances	<u><u>\$ 105,829</u></u>	<u><u>\$ 9,793</u></u>	<u><u>\$ 22,190</u></u>	<u><u>\$ 1,599</u></u>	<u><u>\$ 139,411</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 119,108
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Amounts reported for *governmental activities* in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add - capital assets	74,180
Deduct - accumulated depreciation	<u>(49,180)</u>

Net assets of governmental activities	<u><u>\$ 144,108</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Garbage Collection</u>	<u>Fire Protection</u>	<u>Police</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$148,591	\$ -	\$ 23,226	\$ -	\$ 171,817
State revenue	130,205	-	-	1,452	131,657
Charges for services	450	87,145	-	229	87,824
Interest	1,089	-	-	-	1,089
Other	3,801	-	-	35	3,836
Total revenues	<u>284,136</u>	<u>87,145</u>	<u>23,226</u>	<u>1,716</u>	<u>396,223</u>
Expenditures					
Current:					
General government	166,285	-	-	-	166,285
Public safety	1,019	-	20,200	72,915	94,134
Public works	61,848	92,962	-	-	154,810
Health and welfare	3,000	-	-	-	3,000
Recreation and cultural	10,000	-	-	-	10,000
Capital outlay	-	-	-	120	120
Total expenditures	<u>242,152</u>	<u>92,962</u>	<u>20,200</u>	<u>73,035</u>	<u>428,349</u>
Revenues over (under) expenditures	<u>41,984</u>	<u>(5,817)</u>	<u>3,026</u>	<u>(71,319)</u>	<u>(32,126)</u>
Other financing sources (uses)					
Transfers in	-	-	-	71,319	71,319
Transfers (out)	(71,319)	-	-	-	(71,319)
Total other financing sources (uses)	<u>(71,319)</u>	<u>-</u>	<u>-</u>	<u>71,319</u>	<u>-</u>
Net change in fund balances	(29,335)	(5,817)	3,026	-	(32,126)
Fund balances, beginning of year	<u>128,421</u>	<u>7,199</u>	<u>15,614</u>	<u>-</u>	<u>151,234</u>
Fund balances, end of year	<u>\$ 99,086</u>	<u>\$ 1,382</u>	<u>\$ 18,640</u>	<u>\$ -</u>	<u>\$ 119,108</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (32,126)
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Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	
Deduct - depreciation expense	<u>(10,800)</u>
Deduct - disposal of capital assets	

Change in net assets of governmental activities	<u><u>\$ (42,926)</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes	\$ 151,446	\$ 151,446	\$ 148,591	\$ (2,855)
State revenue	132,000	132,000	130,205	(1,795)
Charges for services	500	500	450	(50)
Interest	3,500	3,500	1,089	(2,411)
Other	5,609	5,309	3,801	(1,508)
Total revenues	<u>293,055</u>	<u>292,755</u>	<u>284,136</u>	<u>(8,619)</u>
Expenditures				
Current:				
General government	112,037	112,037	160,005	(47,968)
Public safety	1,102	1,102	1,019	83
Public works	71,300	71,300	61,848	9,452
Health and welfare	26,292	26,292	3,000	23,292
Recreation and cultural	10,000	10,000	10,000	-
Miscellaneous	3,395	3,395	6,280	(2,885)
Total expenditures	<u>224,126</u>	<u>224,126</u>	<u>242,152</u>	<u>(18,026)</u>
Revenues over (under) expenditures	68,929	68,629	41,984	(26,645)
Other financing (uses)				
Transfers (out)	<u>(70,330)</u>	<u>(70,330)</u>	<u>(71,319)</u>	<u>(989)</u>
Net change in fund balance	(1,401)	(1,701)	(29,335)	(27,634)
Fund balance, beginning of year	<u>128,421</u>	<u>128,421</u>	<u>128,421</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 127,020</u></u>	<u><u>\$ 126,720</u></u>	<u><u>\$ 99,086</u></u>	<u><u>\$ (27,634)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

GARBAGE COLLECTION FUND

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Charges for services:				
Refuse collection fee	\$ 84,090	\$ 84,090	\$ 87,145	\$ 3,055
Expenditures				
Public works:				
Rubbish collection	<u>84,090</u>	<u>84,090</u>	<u>92,962</u>	<u>(8,872)</u>
Net change in fund balance	-	-	(5,817)	(5,817)
Fund balance, beginning of year	<u>7,199</u>	<u>7,199</u>	<u>7,199</u>	<u>-</u>
Fund balance, end of year	<u>\$ 7,199</u>	<u>\$ 7,199</u>	<u>\$ 1,382</u>	<u>\$ (5,817)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

FIRE PROTECTION FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Current property taxes	\$ 19,400	\$ 19,400	\$ 23,226	\$ 3,826
Expenditures				
Public safety:				
Standby fees	<u>19,400</u>	<u>19,400</u>	<u>20,200</u>	<u>(800)</u>
Net change in fund balance	-	-	3,026	3,026
Fund balance, beginning of year	<u>15,614</u>	<u>15,614</u>	<u>15,614</u>	<u>-</u>
Fund balance, end of year	<u>\$ 15,614</u>	<u>\$ 15,614</u>	<u>\$ 18,640</u>	<u>\$ 3,026</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

POLICE FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
State shared revenue	\$ 1,435	\$ 1,435	\$ 1,452	\$ 17
Charges for services - fines	500	500	229	(271)
Other	<u>200</u>	<u>200</u>	<u>35</u>	<u>(165)</u>
Total revenues	<u>2,135</u>	<u>2,135</u>	<u>1,716</u>	<u>(419)</u>
Expenditures				
Public safety:				
Wages, benefits and payroll taxes	52,400	52,400	50,946	1,454
Supplies	565	565	514	51
Auto expense	4,500	4,500	8,353	(3,853)
Insurance	10,900	10,900	10,424	476
Other	3,100	3,100	2,678	422
Capital outlay	<u>1,000</u>	<u>1,000</u>	<u>120</u>	<u>880</u>
Total expenditures	<u>72,465</u>	<u>72,465</u>	<u>73,035</u>	<u>(570)</u>
Revenues over (under) expenditures	(70,330)	(70,330)	(71,319)	(989)
Other financing sources				
Transfers in	<u>70,330</u>	<u>70,330</u>	<u>71,319</u>	<u>989</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

STATEMENT OF NET ASSETS ENTERPRISE FUNDS

JUNE 30, 2008

ASSETS	Sewer	Water	Total
Current assets			
Cash and cash equivalents	\$ 172,936	\$ -	\$ 172,936
Investments	-	179,475	179,475
Accounts receivable	41,849	-	41,849
Interest receivable	-	7,370	7,370
Due from other governmental units	-	-	-
Special assessments receivable	-	65,000	65,000
Total current assets	214,785	251,845	466,630
Noncurrent assets			
Special assessments receivable	-	435,525	435,525
Land	137,000	-	137,000
Construction in progress	-	-	-
Sewer system, net	3,106,000	-	3,106,000
Water system, net	-	960,000	960,000
Total noncurrent assets	3,243,000	1,395,525	4,638,525
Total assets	3,457,785	1,647,370	5,105,155
Liabilities			
Current liabilities			
Accounts payable	1,692	-	1,692
Interest payable	11,321	5,838	17,159
Current portion of long-term debt	23,500	65,000	88,500
Total current liabilities	36,513	70,838	107,351
Long-term liabilities			
Bonds payable	2,160,000	615,000	2,775,000
Total liabilities	2,196,513	685,838	2,882,351
Net assets			
Invested in capital assets, net of related debt	1,059,500	280,000	1,339,500
Restricted for repairs and replacements	2,500	-	2,500
Unrestricted	199,272	681,532	880,804
Total net assets	\$ 1,261,272	\$ 961,532	\$ 2,222,804

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues			
Reimbursements	\$ 240,535	\$ 4,386	\$ 244,921
Operating expenses			
Public works	20,062	36,176	56,238
Operating income (loss)	220,473	(31,790)	188,683
Nonoperating revenues (expenses)			
Grant revenue	1,059,500	-	1,059,500
Interest revenue	15,391	39,581	54,972
Interest expense	(50,782)	(36,181)	(86,963)
Total nonoperating revenues (expenses)	1,024,109	3,400	1,027,509
Changes in net assets	1,244,582	(28,390)	1,216,192
Net assets, beginning of year	16,690	989,922	1,006,612
Net assets, end of year	<u>\$ 1,261,272</u>	<u>\$ 961,532</u>	<u>\$ 2,222,804</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

	Sewer	Water	Total
Cash Flows From Operating Activities			
Cash received from customers	\$ 198,686	\$ 39,813	\$ 238,499
Cash payments to suppliers for goods and services	(18,370)	(4,176)	(22,546)
Net Cash Provided By (Used In)			
Operating Activities	180,316	35,637	215,953
Cash Flows From Capital and Related Financing Activities:			
Principal paid on contracts payable	-	(60,000)	(60,000)
Interest paid on contracts payable	(45,027)	(30,343)	(75,370)
Net Cash Provided By (Used In)			
Capital and Related Financing Activities	(45,027)	(90,343)	(135,370)
Cash Flows From Investing Activities:			
Sale of investments	-	22,495	22,495
Interest on investments	15,391	32,211	47,602
Net Cash Provided By (Used In)			
Investing Activities	15,391	54,706	70,097
Net Increase (Decrease) in Cash and Cash Equivalents	150,680	-	150,680
Cash and Cash Equivalents, Beginning of Year	22,256	-	22,256
Cash and Cash Equivalents, End of Year	\$ 172,936	\$ -	\$ 172,936
Cash Flows From Operating Activities:			
Operating income (loss)	\$ 220,473	\$ (31,790)	\$ 188,683
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	-	32,000	32,000
(Increase) decrease in assets:			
Accounts receivable	(41,849)	35,427	(6,422)
Accounts payable	1,692	-	1,692
Net Cash Provided By Operating Activities	\$ 180,316	\$ 35,637	\$ 215,953

NON-CASH TRANSACTION:

The capital asset acquisitions in the current year related to the sewer project are non-cash transactions of the Township.

The accompanying notes are an integral part of these financial statements.

**DENMARK TOWNSHIP
AGENCY FUND
BALANCE SHEET
June 30, 2008**

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 14,143
Liabilities	
Due to other governments	\$ 14,143

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Denmark Township (the “Township”) has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists only of the primary government. The criteria for including a component unit include entities for which the government is considered to be financially accountable.

FINANCIAL STATEMENTS

Separate financial statements are provided for governmental and business-type funds. Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements and the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds do not have a measurement focus but use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *garbage collection fund* accounts for the contractual services the Township has retained for garbage/trash removal.

The *fire protection fund* accounts for the separate voted millage and the related payments of fire standby fees.

The *police fund* accounts for the separate voted millage and the related operation of the police department.

The government reports the following major enterprise funds:

The *sewer fund* accounts for the activities of the government's sewage disposal system.

The *water fund* accounts for the activities of the government's water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

BUDGETS AND BUDGETARY ACCOUNTING

Comparisons to budget are presented for the general fund and special revenue funds. Budgets are adopted on the modified accrual basis which is consistent with generally accepted accounting principles (GAAP). Any revisions that alter the total expenditures of any fund must be approved by the Township Board.

Budgeted amounts are as originally adopted, or as amended by the Township Board. Budgets are adopted at the activity level for the General Fund and function level for the special revenue funds.

ASSETS, LIABILITIES AND EQUITY

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

Receivables and payables

Township property taxes are attached as an enforceable lien on property as of December 1st. Taxes are levied December 1st and are due without penalty on or before March 1st. Real property taxes not collected as of March 1st are turned over to Tuscola County for collection, which advances the Township 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

Property taxes levied in December of each year are recognized as revenue in that fiscal year.

Capital assets

Capital assets, which include property, plant, equipment and public domain (infrastructure) assets, are reported in the government-wide financial statements. Any outlays for capital assets are recorded as expenditures at the time of their purchase, in the applicable fund financial statements for governmental funds. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Infrastructure capital assets of the enterprise fund are capitalized as constructed. The assets are depreciated using the straight line method over 40 years. Capital assets of the primary government are depreciated using the straight line method over estimated useful lives of five years for equipment and seven years for vehicles.

Long-term obligations

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the Township carried commercial insurance to cover all risk of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amount appropriated. The following funds had expenditures in excess of appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
General Government			
Assessor	\$ 12,750	\$ 59,395	\$ (46,645)
Clerk	16,130	17,046	(916)
Board of Review	1,744	1,746	(2)
Treasurer	24,880	29,604	(4,724)
Cemetery	8,600	15,566	(6,966)
Public Works			
Street Lights	5,400	5,623	(223)
GARBAGE COLLECTION FUND			
Public Works	84,090	92,962	(8,872)
FIRE PROTECTION FUND			
Public Safety	19,400	20,200	(800)
POLICE FUND			
Public Safety			
Auto Expense	\$ 4,500	\$ 8,353	\$ (3,853)

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS

At June 30, 2008, the carrying amount of the deposits (includes cash and cash equivalents and certificates of deposit classified as investments on the financial statements) owned by the Township was \$455,473.

Statutory Authority

The Township is authorized by the Township Board to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- d. Banker's acceptances of United States banks.
- e. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

Investment and deposit risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$178,594 of the Township's bank balance of \$463,214 was exposed to credit risk as none of it was uninsured and uncollateralized.

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 53,180	\$ -	\$ -	\$ 53,180
Vehicles	<u>21,000</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
Total capital assets being depreciated	<u>74,180</u>	<u>-</u>	<u>-</u>	<u>74,180</u>
Less accumulated depreciation				
Equipment	(23,380)	(7,800)	-	(31,180)
Vehicles	<u>(15,000)</u>	<u>(3,000)</u>	<u>-</u>	<u>(18,000)</u>
Total accumulated depreciation	<u>(38,380)</u>	<u>(10,800)</u>	<u>-</u>	<u>(49,180)</u>
Total capital assets being depreciated, net	<u>35,800</u>	<u>(10,800)</u>	<u>-</u>	<u>25,000</u>
Governmental activities capital assets, net	<u>\$ 35,800</u>	<u>\$ (10,800)</u>	<u>\$ -</u>	<u>\$25,000</u>

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ -	\$ 137,000	\$ -	\$ 137,000
Construction in progress	<u>747,097</u>	<u>-</u>	<u>(747,097)</u>	<u>-</u>
Total capital assets not being depreciated	<u>747,097</u>	<u>137,000</u>	<u>(747,097)</u>	<u>137,000</u>
Capital assets being depreciated:				
Sewer system	-	3,106,000	-	3,106,000
Water system	<u>1,280,000</u>	<u>-</u>	<u>-</u>	<u>1,280,000</u>
Total capital assets being depreciated	<u>1,280,000</u>	<u>3,106,000</u>	<u>-</u>	<u>4,386,000</u>
Less accumulated depreciation				
Sewer system	-	-	-	-
Water system	<u>(288,000)</u>	<u>(32,000)</u>	<u>-</u>	<u>(320,000)</u>
Total accumulated depreciation	<u>(288,000)</u>	<u>(32,000)</u>	<u>-</u>	<u>(320,000)</u>
Total capital assets being depreciated, net	<u>992,000</u>	<u>3,074,000</u>	<u>-</u>	<u>4,066,000</u>
Business-type activities capital assets, net	<u>\$ 1,739,097</u>	<u>\$3,211,000</u>	<u>\$(747,097)</u>	<u>\$ 4,203,000</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 7,800
Public safety	<u>3,000</u>

Total depreciation expense – governmental activities **\$ 10,800**

TOWNSHIP OF DENMARK

NOTES TO FINANCIAL STATEMENTS

5. PENSION PLAN

Beginning July 1, 1991, all appointed officials, elected officials, police chiefs and cemetery custodians of the Township of Denmark are covered by the Denmark Township Pension Plan, a defined contribution pension plan administered by John Hancock Life Insurance Co. Contributions to the plan are made at fixed rates by the employer based upon actual payrolls. Additional contributions may be made by the employee. Benefits vest 100 percent immediately. Plan provisions and contribution requirements are established and may be amended by the Township Board. Employer contributions for the year ended June 30, 2008, amounted to \$9,791, which represents 15.3% of covered payroll. No employee contributions were made.

6. LONG-TERM DEBT

During 1997, Tuscola County issued bonds in the amount of \$1,280,000 to finance the cost of a watermain extension into Denmark Township. The Township has agreed to special assess its property to make payments to the County to cover the principal and interest on the bonds. Final payment occurs in the year 2017. In addition, in 2007 Tuscola County issued bonds in the amount of \$2,206,000 to finance the cost of a sewer extension into Denmark Township. The Township has agreed to charge citizens for sewer services to cover the principal and interest on the bonds.

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due in</u> <u>One Year</u>
Contract payable to Tuscola County, dated 1997, with principal installments of \$60,000 to \$75,000 through November 2017 (4.6% - 7.6% effective rate of interest).	\$ 740,000	\$ (60,000)	\$ 680,000	\$ 65,000
Contract payable to Tuscola County, dated 2007, with principal installments of \$10,500 to \$108,000 through October 2047, 4.125% interest.	<u>2,206,000</u>	<u>(22,500)</u>	<u>2,183,500</u>	<u>\$ 23,500</u>
Total	<u>\$ 2,946,000</u>	<u>\$(82,500)</u>	<u>\$ 2,863,500</u>	<u>\$ 88,500</u>

TOWNSHIP OF DENMARK
NOTES TO FINANCIAL STATEMENTS

The aggregate debt service requirements to pay principal and interest on this long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 88,500	\$ 122,986
2010	89,500	118,730
2011	90,500	114,399
2012	91,500	109,996
2013	92,500	105,518
2014-18	510,500	454,826
2019-23	190,500	372,951
2024-28	233,000	329,526
2029-33	286,000	276,045
2034-38	351,500	210,699
2039-43	429,500	130,215
2044-47	<u>410,000</u>	<u>34,630</u>
	<u>\$2,863,500</u>	<u>\$2,380,521</u>

7. INTERFUND TRANSFERS

The interfund transfer from the General Fund to the Police Fund in the amount of \$71,319 is a transfer of unrestricted revenues collected in the General Fund to finance the Police activities, in accordance with budgetary authorization.

The interfund receivable from the General Fund to the Police Fund in the amount of \$1,599 is a General Fund subsidy of the Police Fund for the accounts payable of the Police Fund at June 30, 2008.

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TOWNSHIP OF DENMARK

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes:				
Current property taxes	\$ 122,983	\$ 122,983	\$ 121,872	\$ (1,111)
Trailer park fees	475	475	-	(475)
Property tax administration fees	27,988	27,988	26,719	(1,269)
Total taxes	<u>151,446</u>	<u>151,446</u>	<u>148,591</u>	<u>(2,855)</u>
State revenue:				
Sales and use tax	<u>132,000</u>	<u>132,000</u>	<u>130,205</u>	<u>(1,795)</u>
Charges for services:				
Cemetery lot sales	<u>500</u>	<u>500</u>	<u>450</u>	<u>(50)</u>
Interest	<u>3,500</u>	<u>3,500</u>	<u>1,089</u>	<u>(2,411)</u>
Other revenues:				
Zoning appeals	600	600	-	(600)
Other	<u>5,009</u>	<u>4,709</u>	<u>3,801</u>	<u>(908)</u>
Total other revenue	<u>5,609</u>	<u>5,309</u>	<u>3,801</u>	<u>(1,508)</u>
Total revenues	<u><u>\$ 293,055</u></u>	<u><u>\$ 292,755</u></u>	<u><u>\$ 284,136</u></u>	<u><u>\$ (8,619)</u></u>

TOWNSHIP OF DENMARK

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (Continued) BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Total revenues (pg. 28)	\$ 293,055	\$ 292,755	\$ 284,136	\$ (8,619)
Total expenditures (pg. 30)	<u>(224,126)</u>	<u>(224,126)</u>	<u>(242,152)</u>	<u>(18,026)</u>
Revenues over (under) expenditures	68,929	68,629	41,984	(26,645)
Other financing (uses)				
Transfers out	<u>(70,330)</u>	<u>(70,330)</u>	<u>(71,319)</u>	<u>(989)</u>
Net change in fund balances	(1,401)	(1,701)	(29,335)	(27,634)
Fund balance, beginning of year	<u>128,421</u>	<u>128,421</u>	<u>128,421</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 127,020</u></u>	<u><u>\$ 126,720</u></u>	<u><u>\$ 99,086</u></u>	<u><u>\$ (27,634)</u></u>

TOWNSHIP OF DENMARK
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
General government				
Township board	\$ 17,379	\$ 17,379	\$ 15,925	\$ 1,454
Township supervisor	13,645	13,645	8,395	5,250
Assessor	12,750	12,750	57,395	(44,645)
Elections	3,740	3,740	3,641	99
Clerk	16,130	16,130	17,046	(916)
Board of review	1,744	1,744	1,746	(2)
Treasurer	24,880	24,880	29,604	(4,724)
Cemetery	8,600	8,600	15,566	(6,966)
Township hall and grounds	13,169	13,169	10,687	2,482
Total general government	112,037	112,037	160,005	(47,968)
Public safety				
Planning - zoning board of appeals	1,102	1,102	1,019	83
Public works				
Roads and drains	6,400	6,400	-	6,400
Street lights	5,400	5,400	5,623	(223)
Drain-at-large	59,500	59,500	56,225	3,275
Total public works	71,300	71,300	61,848	9,452
Health and welfare				
Ambulance service fees	26,292	26,292	3,000	23,292
Recreation and cultural				
Parks	10,000	10,000	10,000	-
Miscellaneous	3,395	3,395	6,280	(2,885)
Total expenditures	<u>\$ 224,126</u>	<u>\$ 224,126</u>	<u>\$ 242,152</u>	<u>\$ (18,026)</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

December 22, 2008

To the Township Board
Richville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Township of Denmark*** as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated December 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2008-2 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (“GAAP”).
Condition:	During our audit, we identified and proposed numerous material adjustments (which were approved and posted by management) to adjust the Township’s records to the appropriate balances. These adjustments were in the areas of cash, accounts payable, prepaid expenses, capital assets, debt, and receivables.
Cause:	The Township has historically relied on its independent external auditors to assist with the process of making necessary year end adjustments to present its financial statements in accordance with GAAP.
Effect:	As a result of this condition, the Township’s accounting records were initially misstated by amounts material to the financial statements.
View of Responsible Officials:	The Township will review the accounting adjustments that were necessary in order for the financial statements to be in accordance with GAAP and plan accordingly to reduce these for subsequent year audits.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies 2008-1 through 2008-2 described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Township Board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

